

Message Text

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PAGE 01 BONN 14251 01 OF 02 091720Z

51

ACTION EUR-25

INFO OCT-01 ISO-00 SAJ-01 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-03 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-03 INR-11 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 L-03 H-03 PA-04 PRS-01 USIA-15 SCI-06 DRC-01

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R 091651Z SEP 74

FM AMEMBASSY BONN

TO SECSTATE WASHDC 4902

INFO AMEMBASSY BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION EC BRUSSELS

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LIMITED OFFICIAL USE SECTION 01 OF 02 BONN 14251

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 1L652: N/A

TAGS: EFIN, GW

SUBJECT: GERMAN BANKING REFORM

1. SUMMARY. THE GERMAN AUTHORITIES EXPECT ESTABLISHMENT OF THE LIQUIDITY BANK IN THE VERY NEAR FUTURE. CHANGES IN THE BANKING SUPERVISORY SYSTEM SHOULD BE ENACTED BY THE END OF THE YEAR. APEL'S PROPOSAL FOR A SYSTEM OF ORDERLY LIQUIDATION OF INSOLVENT BANKS WITH A DM 500,000 GUARANTEE FOR EACH DEPOSIT IS MORE CONTROVERSIAL AND ITS ENACTMENT REMAINS UNCERTAIN. END SUMMARY.

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PAGE 02 BONN 14251 01 OF 02 091720Z

2. FINANCE MINISTRY ASSISTANT SECRETARY WEBER TODAY GAVE THE FINANCIAL ATTACHE THE FOLLOWING RUNDOWN ON GERMAN PLANS TO STRENGTHEN THE BANKING SYSTEM'S DEFENSES AGAINST HERSTATT-LIKE FAILURES.

3. THE LIQUIDITY BANK WILL BE FOUNDED IN THE VERY NEAR FUTURE. ITS CAPITAL WILL BE SUBSCRIBED BY THE COMMERCIAL BANKS, THE SAVINGS BANKS AND THE BUNDESBANK. THE BANK WILL ENDORSE NOTES FROM BANKS WHICH COME INTO LIQUIDITY AS DISTINCT FROM SOLVENCY DIFFICULTIES AND THE BUNDESBANK WILL THEN DISCOUNT THE ENDORSED NOTES. SHOULD SUBSEQUENTLY LOSSES BE INCURRED ON THESE NOTES, THEY WILL BE BORNE BY THE LIQUIDITY BANK. FINAL NEGOTIATIONS ARE NOW IN PROGRESS CONCERNING THE SHARES OF THE CAPITAL OF THE LIQUIDITY BANK TO BE BORNE BY VARIOUS GROUPS AND THE CONTROL OVER THE OPERATIONS OF THE BANK.

4. THE PROPOSALS TO STRENGTHEN THE AUTHORITY AND FUNCTIONS OF THE BANKING SUPERVISORY AUTHORITY (SEE BONN 13921) WILL BE TAGGED ON AS AMENDMENTS TO A HESSIAN DRAFT LAW ON THE SAME SUBJECT NOW BEFORE THE BUNDESRAT. THIS WILL SPEED UP THE PARLIAMENTARY CONSIDERATION AND FINAL ENACTMENT IS EXPECTED IN NOVEMBER OR DECEMBER.

5. THERE IS MUCH CONTROVERSY CONCERNING FINANCE MINISTER APELS PROPOSAL FOR A SYSTEM BY WHICH IN CASE OF A PENDING BANK FAILURE A LIQUIDATOR SHOULD BE APPOINTED WHO UNWINDS ALL TRANSACTIONS OF THE BANK AND GUARANTEES FULL PAYMENT OF ALL PRIVATE AND INTERBANK DEPOSITS UP TO AT LEAST DM 500,000 EACH. ANY LOSSES REMAINING AFTER THE UNWINDING OF ALL TRANSACTIONS OF THE INSOLVENT BANK (INCLUDING THE DM 500,000 PAYMENT ON EACH ACCOUNT) WOULD BE BORNE BY THE REMAINING GERMAN BANKS IN ACCORDANCE WITH A PREDETERMINED KEY. THE PROPOSAL WOULD REQUIRE CHANGES IN THE GERMAN BANKRUPTCY LAW AS WELL AS A NEW LAW TO

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PAGE 03 BONN 14251 01 OF 02 091720Z

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PAGE 01 BONN 14251 02 OF 02 091711Z

51

ACTION EUR-25

INFO OCT-01 ISO-00 SAJ-01 SP-03 AID-20 EB-11 NSC-07 RSC-01

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COME-00 FRB-03 INR-11 NSAE-00 XMB-07 OPIC-12 LAB-06

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INFO AMEMBASSY BRUSSELS

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LIMITED OFFICIAL USE SECTION 02 OF 02 BONN 14251

PROVIDE FOR THE COVERING OF THE FINAL LOSS BY THE
REMAINING GERMAN BANKS. THE BIG GERMAN BANKS ARE
OPPOSING THE PROPOSAL BECAUSE THEY FEEL IT OFFERS TOO
MUCH PROTECTION TO UNSOUND BANKS AND BANKING PRACTICES.
THEY FEEL IT WOULD ENCOURAGE TOO RISKY OPERATIONS
(AND CUTTHROAT COMPETITION) BY IN EFFECT GUARANTEEING
ALL DEPOSITS OF A BANK. AT A MINIMUM THEY FEEL INTER-
BANK DEPOSITS SHOULD BE EXCLUDED FROM THE GUARANTY.
THE PROBLEM WITH THIS SUGGESTION, ACCORDING TO THE
FINANCE MINISTRY, IS THAT IF INTER-BANK DEPOSITS ARE
EXCLUDED FROM THE GUARANTY, IT WILL NOT BE POSSIBLE
TO AVOID BANKRUPTCY PROCEEDINGS AND PROCEED WITH THE
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PAGE 02 BONN 14251 02 OF 02 091711Z

ORDERLY UNWINDING OF ALL OF THE INSOLVENT BANK'S
TRANSACTIONS. ON THE CONTRARY, TO PROTECT THEIR

INTERESTS THE OTHER BANKS HAVING MONEY IN THE INSOLVENT
ONE WILL HAVE TO INSIST ON ITS CLOSURE WITH THE
DISRUPTION OF THE FOREIGN EXCHANGE CLEARING CYCLES, ETC.
ANOTHER GROUP OF OPONENTS OF APEL'S PROPOSAL ARE THE
SAVINGS BANKS WHO FEEL THAT SINCE THEIR DEPOSITS ARE
DE FACTO GUARANTEED BY THE STATES AND PUBLIC AUTHORITIES
WHO OWN THEM, THEY SHOULD BEAR ONLY A RELATIVELY SMALL--
IF ANY--SHARE IN THE KEY BY WHICH LOSSES OF OTHER
INSOLVENT AND LIQUIDATED BANKS ARE BORNE BY THE
REMAINDER OF THE BANKING SYSTEM. IN VIEW OF THE
WIDESPREAD OPPOSITION TO APEL'S SUGGESTIONS, IT
REMAINS UNCERTAIN WHETHER AND IN WHAT FORM THEY WILL
FINALLY BE ENACTED INTO LAW. IN THE MEANTIME, APEL
HAS SUGGESTED THAT THEY SHOULD PROVIDE A FOCUS FOR
NATIONAL AND INTERNATIONAL DISCUSSION OF THE PROBLEM.
HILLENBRAND

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